Job Order Costing

Chapter 19

Wild and Shaw

Fundamental Accounting Principles

25th Edition

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Chapter 19 Learning Objectives

CONCEPTUAL

C1 Explain job order costing and job cost sheets.

ANALYTICAL

A1 Apply job order costing in pricing services.

PROCEDURAL

P1 Describe and record the flow of materials costs in job order costing.

P2 Describe and record the flow of labor costs in job order costing.

P3 Describe and record the flow of overhead costs in job order costing.

P4 Close overapplied and underapplied factory overhead.

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Learning Objective C1

Explain job order costing and job cost sheets.

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Cost Accounting Systems

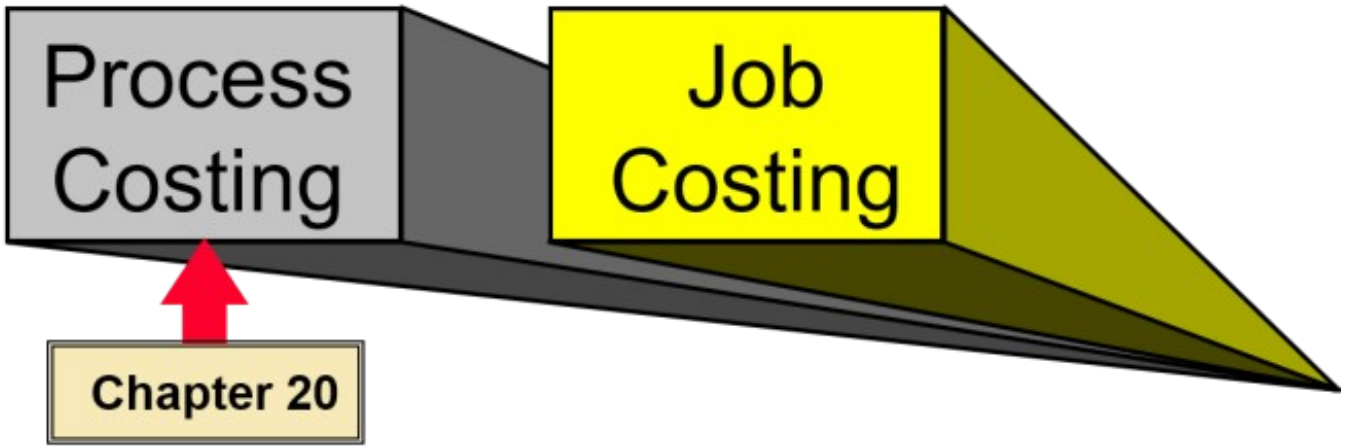

Exhibit 19.1

Job Order Operations		Process Operations	
• Custom orders • Diverse products and services • Low production volume • High product flexibility • Low standardization		• Repetitive procedures • Similar products and services • High production volume • Low product flexibility • High standardization	

Learning Objective C1: Explain job order costing and job cost sheets.

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Production Activities in Job Order Costing

Exhibit 19.2

Learning Objective C1 Explain job order costing and job cost sheets.

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Cost Flows

Manufacturing costs flow:

1. Raw materials inventory – direct and indirect materials
2. Work in process inventory – job is being produced
3. Finished goods inventory – completed goods
4. Cost of goods sold – goods which are sold

Subsidiary records store specific cost data about the manufacturing costs for each job.

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Job Cost Sheet

Exhibit 19.3

Road Warriors — **JOB COST SHEET**

Customer's Name	Carroll Connor	Job No.	B15
Address	1542 High Point Dr., Malibu, CA		
Job Description	Alarm System and Paint on Ford Expedition		
Date promised	March 15	Date started	March 8
Date completed	March 12		

Direct Materials			Direct Labor			Overhead		
Date	Requisition	Cost	Date	Time Ticket	Cost	Date	Rate	Cost
Mar. 8	R-46	$700	Mar. 12	T-33	$1,000	Mar. 12	160% of Direct Labor Cost	$1,600
	Total	$700		Total	$1,000		Total	$1,600

REMARKS: Completed job on March 12, and delivered to customer on March 15. Met all specifications and requirements.

Signed: C. Luther, Supervisor

SUMMARY:

Materials	$ 700
Labor	1,000
Overhead	1,600
Total cost	$3,300

Direct Materials
+ Direct Labor
+ Overhead (estimated)
= Total job cost

Learning Objective C1: Explain job order costing and job cost sheets.

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Learning Objective P1

Describe and record the flow of materials costs in job order costing.

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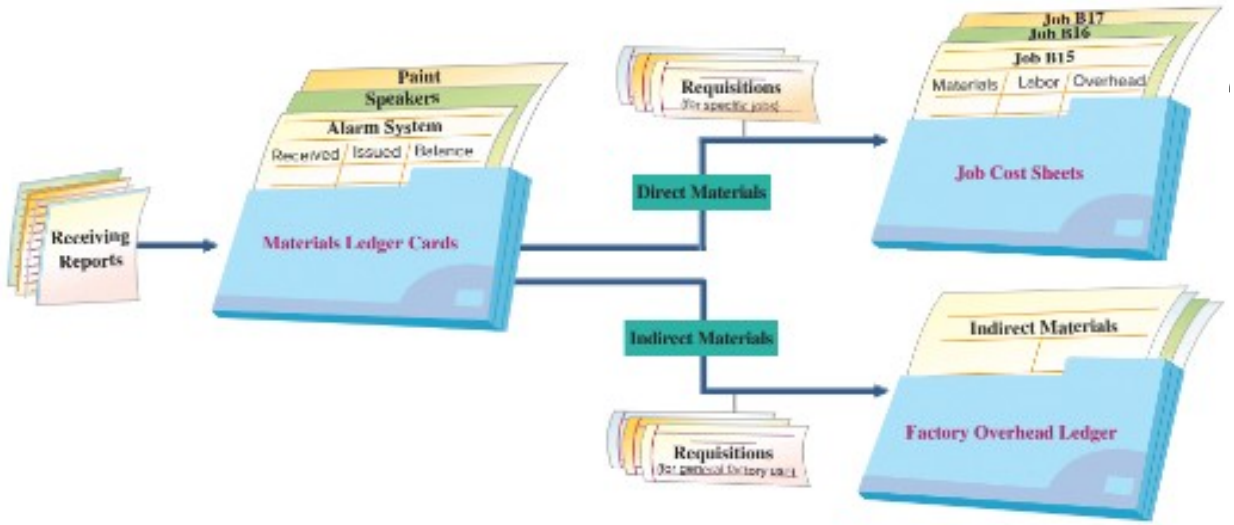
Materials and Labor Costs

- Materials received recorded in a receiving report
- Receiving report – materials source document
- M[illegible]hen
  m[illegible]d for
  ir[illegible]

Exhibit 19.4



Learning Objective P1: Describe and record the flow of materials costs in job order costing.

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Materials Ledger Card

Mar. 4	Raw Materials Inventory	2,750	
	Accounts Payable		2,750
	Purchase materials for production.		

MATERIALS LEDGER CARD

Road Warriors
Los Angeles, California

Item	Alarm system	Stock No.	M–3	Location in Storeroom	Bin 7
Maximum quantity	5 units	Minimum quantity	1 unit	Quantity to reorder	2 units

	Received				Issued				Balance		
Date	Receiving Report Number	Units	Unit Price	Total Price	Requi-sition Number	Units	Unit Price	Total Price	Units	Unit Price	Total Price
									1	$600	$ 600
Mar. 4	C-71	2	$600	$1,200					3	600	1,800
Mar. 8					R–46	1	$600	$600	2	600	1,200

Exhibit 19.5a

Learning Objective P1: Describe and record the flow of materials costs in job order costing.

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Materials Requisition

Exhibit 19.6

MATERIALS REQUISITION No. R–48

B17

By C. Luther

	Total Cost
	$ 75
	225
	$300

MATERIALS REQUISITION No. R–47

B16

By C. Luther

	Total Cost
	$600
	100
	100
	$800

MATERIALS REQUISITION No. R–46

Date Mar. 8

Filled By M. Bateman

Job No. B15

Requested By C. Luther

Part No.	Description	Units	Unit Cost	Total Cost
M–3	Alarm system	1	$600	$600
P–2	Paint	4	25	100
				$700

Learning Objective P1: Describe and record the flow of materials costs in job order costing.

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Materials Requisition Journal Entry

Direct materials—requisitioned for specific jobs
Job B15 ..... $ 700
Job B16 800
Job B17 300
Total direct materials $1,800
Mar. 8
Work in Process Inventory..... 1,800
Raw Materials Inventory..... 1,800
Use of direct materials.

Learning Objective P1: Describe and record the flow of materials costs in job order costing.

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Learning Objective P2

Describe and record the flow of labor costs in job order costing.

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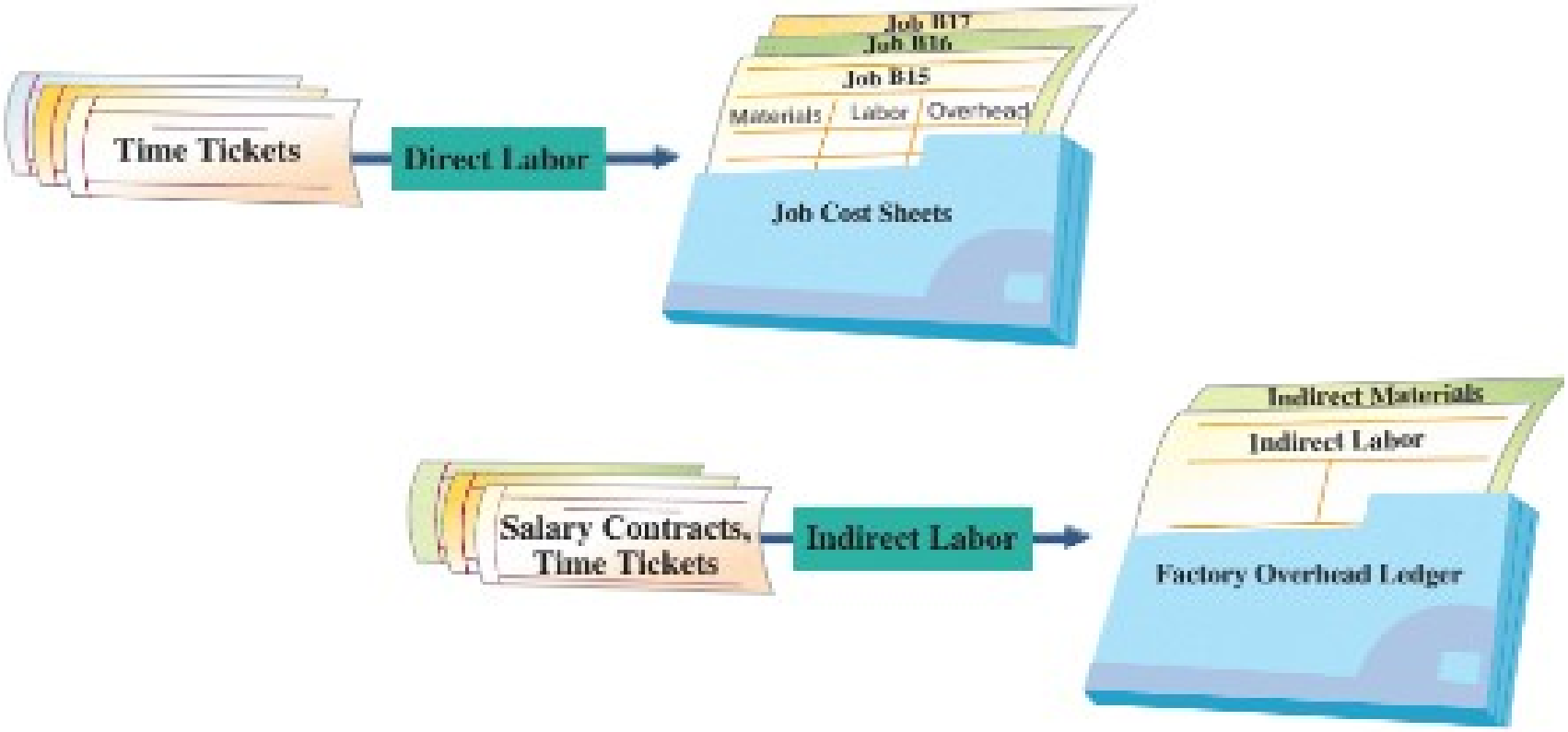
Labor Cost Flows

Exhibit 19.8



Learning Objective P2: Describe and record the flow of labor costs in job order costing.

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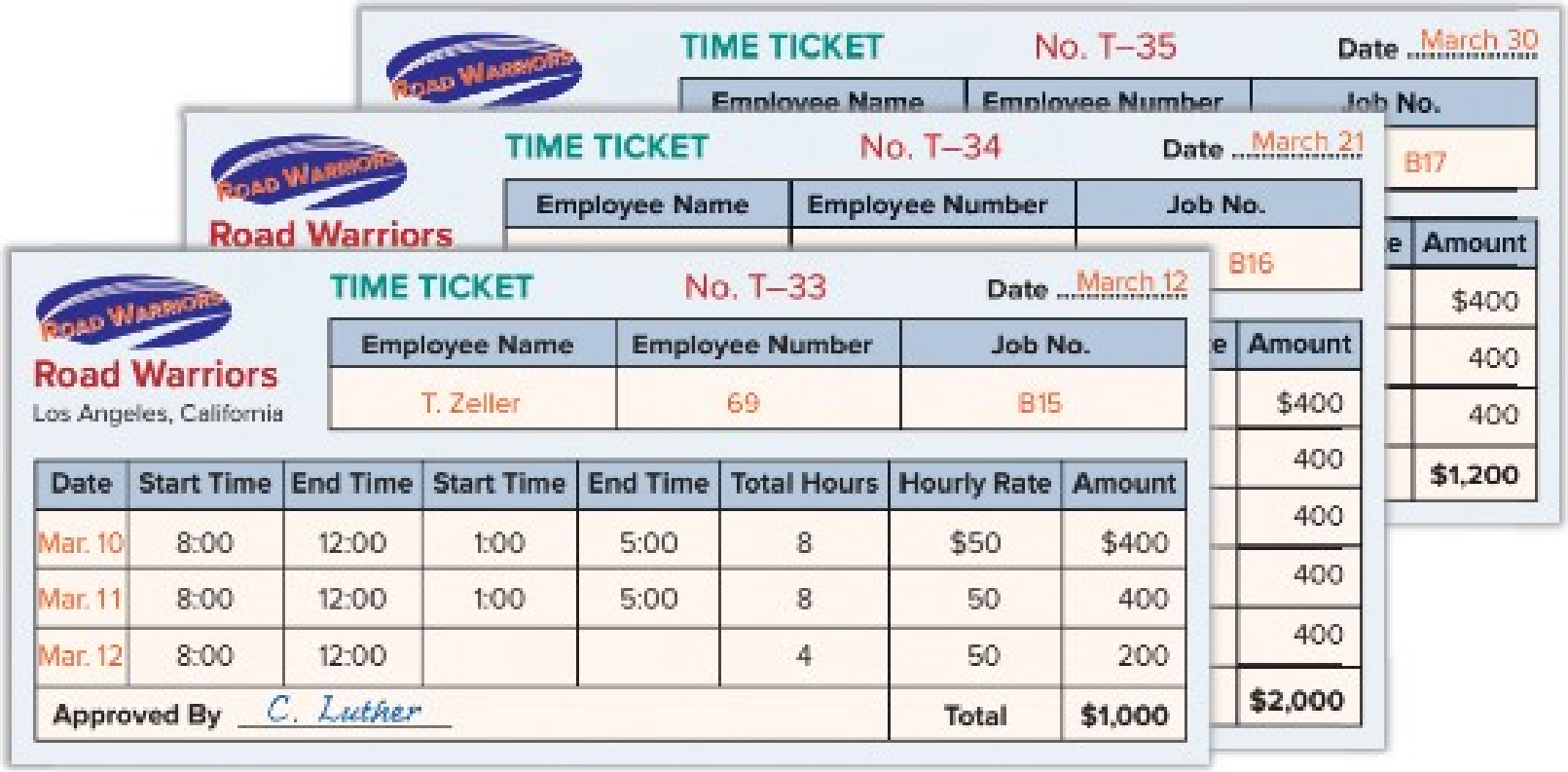
Labor Time Ticket

Exhibit 19.9



TIME TICKET No. T–35 Date March 30

Employee Name	Employee Number	Job No.
		B17

Amount
$400
400
400
$1,200

TIME TICKET No. T–34 Date March 21

Employee Name	Employee Number	Job No.
		B16

Amount
$400
400
400
400
400
$2,000

Road Warriors
Los Angeles, California

TIME TICKET No. T–33 Date March 12

Employee Name	Employee Number	Job No.
T. Zeller	69	B15

Date	Start Time	End Time	Start Time	End Time	Total Hours	Hourly Rate	Amount
Mar. 10	8:00	12:00	1:00	5:00	8	$50	$400
Mar. 11	8:00	12:00	1:00	5:00	8	50	400
Mar. 12	8:00	12:00			4	50	200
Approved By C. Luther						Total	$1,000

Learning Objective P2: Describe and record the flow of labor costs in job order costing.

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Labor Time Ticket Journal Entry

Direct labor—traceable to specific jobs	
Job B15	$ 1,000
Job B16	2,000
Job B17	1,200
Total direct labor	$4,200

Mar. 31	Work in Process Inventory	4,200	
	Factory Wages Payable		4,200
	Direct labor used.		

Learning Objective P2: Describe and record the flow of labor costs in job order costing.

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Learning Objective P3

Describe and record the flow of overhead costs in job order costing.

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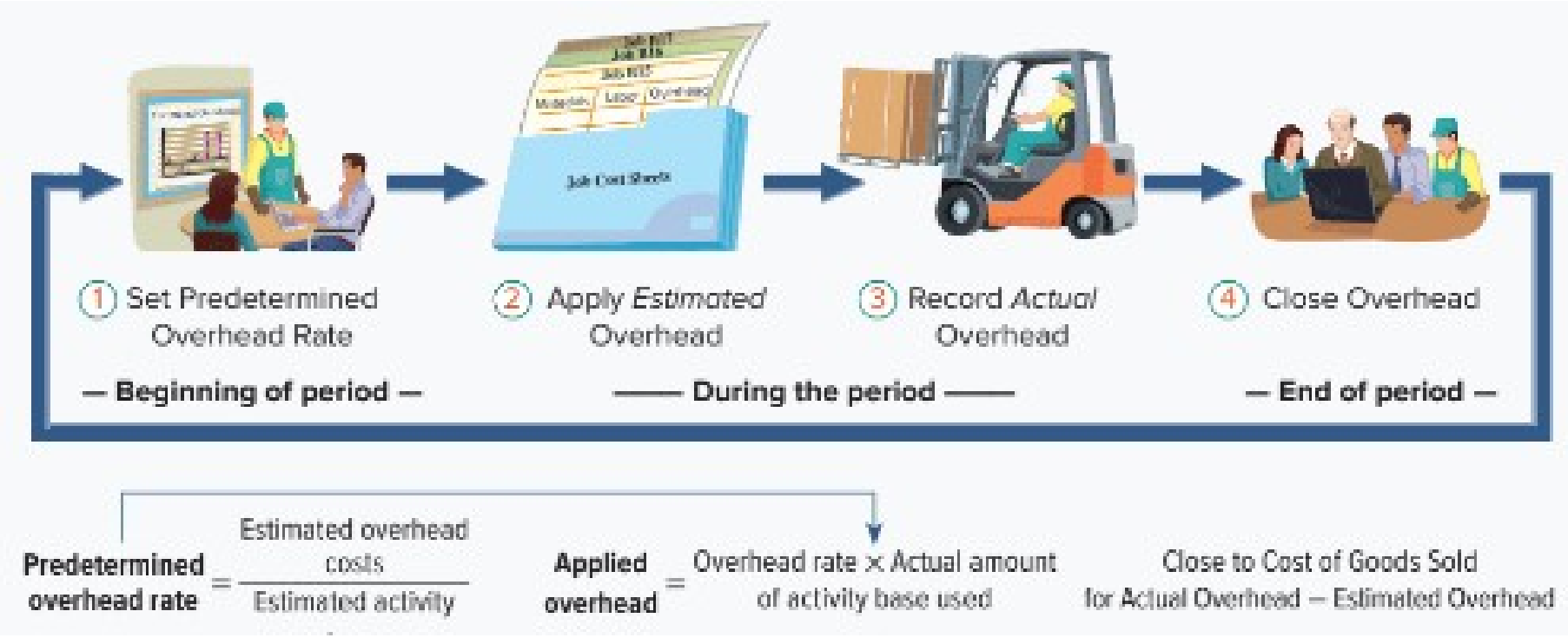
Overhead Costs

Exhibit 19.11


1 Set Predetermined Overhead Rate
2 Apply Estimated Overhead
3 Record Actual Overhead
4 Close Overhead
— Beginning of period —
—— During the period ——
— End of period —
Predetermined overhead rate = Estimated overhead costs / Estimated activity
Applied overhead = Overhead rate × Actual amount of activity base used
Close to Cost of Goods Sold for Actual Overhead − Estimated Overhead

Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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Set Predetermined Overhead Rate

Road Warriors uses a predetermined overhead rate (POHR) based on direct labor cost to apply overhead to jobs.

Exhibit 19.12

$$\text{Predetermined overhead rate} = \frac{\text{Estimated overhead costs}}{\text{Estimated activity base}}$$

$$\frac{\$200{,}000}{\$125{,}000} = 160\% \text{ (or 1.6 times) of direct labor costs}$$

Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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Predetermined Overhead Rate

Exhibit 19.13

Job	Direct Labor Cost	Predetermined Overhead Rate	Applied Overhead
B15	$1,000	1.6	$1,600
B16	2,000	1.6	3,200
B17	1,200	1.6	1,920
Total	$4,200		$6,720

Mar. 31	Work in Process Inventory	6,720	
	Factory Overhead		6,720
	Apply overhead at 160% direct labor.		

Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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Record Actual Overhead

Indirect Material

Indirect Labor

Other Overhead Costs

Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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Record Indirect Materials Used

Mar. 31	Factory Overhead	550	
	Raw Materials Inventory		550
	Record indirect materials used		

Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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Record Indirect Labor Used

Mar. 31	Factory Overhead	1,100	
	Factory Wages Payable		1,100
	Record indirect labor used.		

Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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Record Other Overhead Costs

Mar. 31	Factory Overhead	5,270	
	Accumulated Depreciation—Factory Equipment		2,400
	Rent Payable		1,620
	Utilities Payable		250
	Prepaid Insurance		1,000
	Actual other overhead costs.		

Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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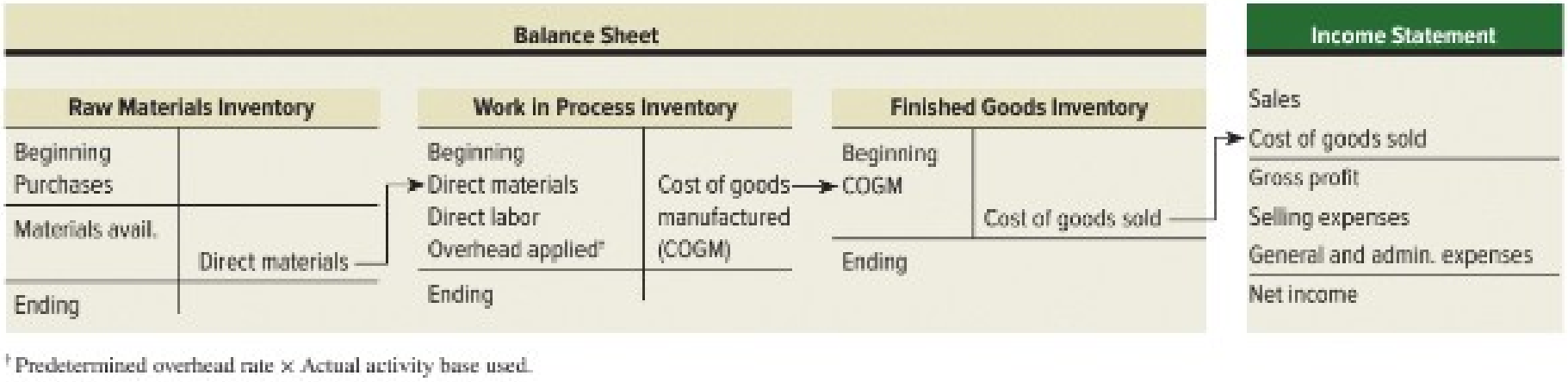
Cost Flows to Financial Statements

Exhibit 19.15



† Predetermined overhead rate × Actual activity base used.

Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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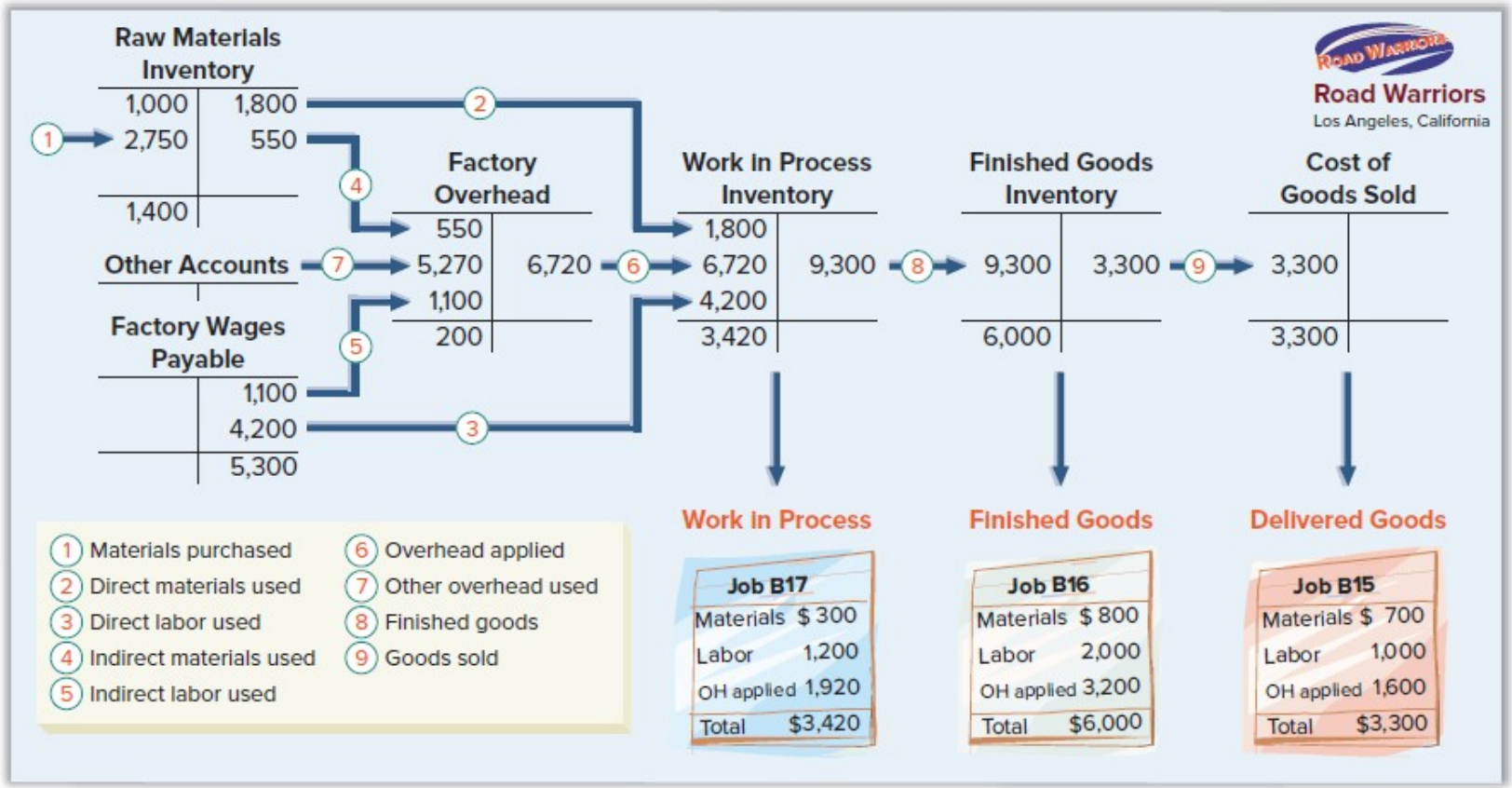
Accounting for Cost Flows

Exhibit 19 16



Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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Summary of Cost Flows: Journal Entries

Exhibit 19-17

1	Raw Materials Inventory	2,750	
	Accounts Payable		2,750
	Acquired raw materials.		
2	Work in Process Inventory	1,800	
	Raw Materials Inventory		1,800
	Direct materials used.		
3	Work in Process Inventory	4,200	
	Factory Wages Payable		4,200
	Direct labor used.		
4	Factory Overhead	550	
	Raw Materials Inventory		550
	Indirect materials used.		
5	Factory Overhead	1,100	
	Factory Wages Payable		1,100
	Indirect labor used		
6	Work in Process Inventory	1,100	
	Factory Overhead		1,100
	Apply overhead at 160% of direct labor.		
7	Factory Overhead	5,270	
	Accumulated Depreciation—Factory Equipment		2,400
	Rent Payable		1,620
	Utilities Payable		250
	Prepaid Insurance		1,000
	Actual overhead costs.		
8	Finished Goods Inventory	9,300	
	Work in Process Inventory		9,300
	Record completion of Jobs B15 and B16.		
9	Cost of Goods Sold	3,300	
	Finished Goods Inventory		3,300
	Record cost of goods sold for Job B15.		
10	Accounts Receivable	5,500	
	Sales		5,500
	Record sale of Job B15.		

ning Objective P3: Describe and recor erhead costs in job order ng.

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Schedule of Cost of Goods Manufactured

Exhibit 19.18

ROAD WARRIORS Schedule of Cost of Goods Manufactured For Month Ended	
Direct materials used	$ 1,800
Direct labor	4,200
Factory overhead applied	6,720
Total manufacturing costs	12,720
Add work in process inventory, beginning	0
Total cost of work in process	12,720
Less work in process inventory, ending	3,420
Cost of goods manufactured	$ 9,300

Learning Objective P3: Describe and record the flow of overhead costs in job order costing.

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Financial Statements

ROAD WARRIORS Income Statement For Month Ended March 31	
Sales	$5,500
Cost of goods sold	3,300
Gross profit	2,200
Selling expenses	400
General and administrative expenses	1,200
Net income	$ 600

ROAD WARRIORS Inventory Balances on Balance Sheet March 31	
Current assets	
Raw materials inventory	$ 1,400
Work in process inventory	3,420
Finished goods inventory	6,000
Total inventory	$10,820

ead costs in job order

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Learning Objective P4

Close overapplied and underapplied factory overhead.

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Adjusting Factory Overhead

Exhibit 19.19

Factory Overhead	
Actual overhead costs	Applied overhead costs
Underapplied overhead or Overapplied overhead	

Exhibit 19.20

Overhead Costs	Overhead Balance	Overhead Is	Jobs Are	Journal Entry Required	
Actual > Applied	Debit	Underapplied	Undercosted	Cost of Goods Sold	#
				Factory Overhead	#
Actual < Applied	Credit	Overapplied	Overcosted	Factory Overhead	#
				Cost of Goods Sold	#

Adjust Underapplied or Overapplied Overhead

Factory Overhead

Indirect materials	550	6,720	Overhead applied
Indirect labor	1,100		
Other overhead	5,270		
Underapplied overhead	200		

Mar. 31	Cost of Goods Sold	200	
	Factory Overhead		200
	Close underapplied overhead costs.		

Learning Objective P4: Close overapplied and underapplied factory overhead.

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Job Order Costing of Services

Job order costing applies to service companies. Differences for service firms:

- Service firms do not have raw materials or finished goods inventory. They have supplies, but these may be considered overhead.
- Direct labor is used to apply overhead.
- Typically use different account titles such as Services in Proc

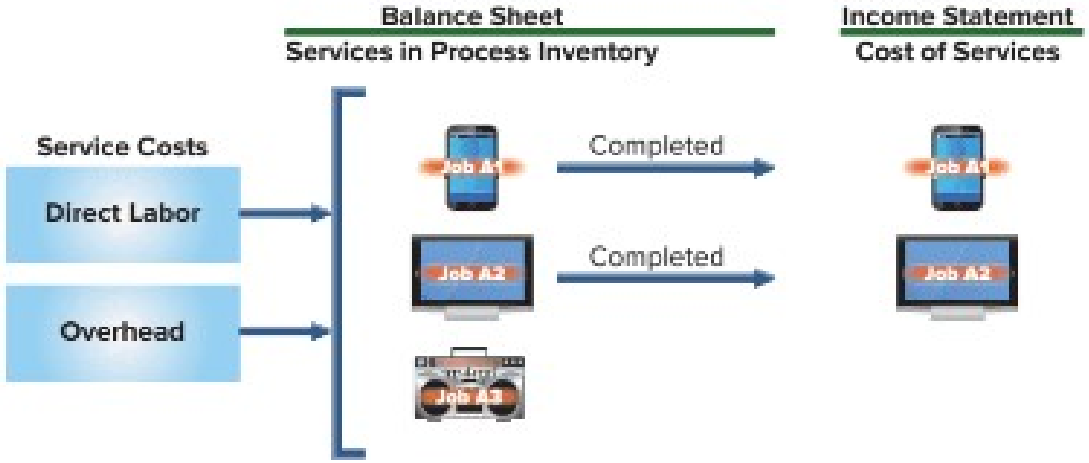

Exhibit 19.21

Learning Objective P4: Close overapplied and underapplied factory overhead.

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Learning Objective A1

Apply job order costing in pricing services.

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Pricing for Services

- Service providers also use job order costing.
- Cost for each individual job are tracked separately.
- Total costs include labor and overhead.

Estimated Job Cost—Advertising

Direct Labor	
Designers (43 hours × $65)	$ 2,795
Staff (61 hours × $50)	3,050
Total direct labor	5,845
Overhead	
Total overhead (104 hours × $108)	11,232
Total estimated job cost	$17,07

Learning Objective A1: Apply job order costing in pricing services.

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Pricing for Services

- Service providers also use job order costing.
- Cost for each individual job are tracked separately.
- Total c[illegible]ead.

Estimated Job Cost—Advertising

Direct Labor	
Designers (43 hours × $65)	$ 2,795
Staff (61 hours × $50)	3,050
Total direct labor	5,845
Overhead	
Total overhead (104 hours × $108)	11,232
Total estimated job cost	$17,07

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Gross Profit Ratio for Service Companies

$$\text{Gross profit ratio} = \frac{\text{Service revenue} - \text{Cost of services}}{\text{Service revenue}}$$

- Service providers also use job order costing.
- Cost for each individual job are tracked separately.
- Total costs include labor and overhead.

Learning Objective A1: Apply job order costing in pricing services.

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End of Chapter 19

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